

1. Meaning

As a rule, whenever any goods are bought, the seller of goods issues a receipt to the buyer the gives a description of the goods purchased, the price paid and other relevant details. In auditing, such receipt is called a voucher. An individual buyer may not attach any importance to such receipt and may even throw it in a dustbin, but a voucher is an important document for a business organisation and is carefully filed. All transactions in the books of account are based on such receipts which vouch for the authenticity of the transactions. As such, there should be no entry in the books of accounts without its voucher, and there should be no voucher without its entry. This is meant to examine the results of give-and-take transactions recorded in the books of accounts.

1.1 Definitions

Some leading authorities have defined vouching as under:

- (1) According to J.R. Batliboi, "Vouching means testing the truth of the items appearing in the books of original entry."
- (2) Arthur W. Holmes defines vouching as "the examination of the underlying evidence which is in support of the accuracy of a transaction. The process of vouching is intended to substantiate an entry by proving authority, ownership, existence and accuracy."
- (3) According to Lawrence R. Dicksee, "Vouching refers to the examination of entries made in the account books, with the documents, on the basis of which the accounts have been written."
- (4) In the words of Ronald A. Irish, "Vouching is a technical term which refers to the inspection of documentary evidence supporting and substantiating a transaction."
- (5) Joseph Lancaster has this to say about vouching: "It is often thought that vouching consists of the mere examination of the vouchers or documentary evidence with the book entries. This, however, is quite wrong, for vouching comprises such examination of the ledger entries as will satisfy the auditor that not only the entry is supported by documentary evidence, but it has been properly made in the books of accounts."

On the basis of the above, vouching may be defined as an examination of the entries made in the books of accounts on the basis of vouchers and check the authenticity of the vouchers. The purpose of such examination is to ensure that entries made in the books of accounts are correct, reasonable and authorised.

The various definitions of vouching highlight the following characteristics:

- (1) **Scrutinizing of Entries with Vouchers:** In vouching, the entries made in the books of accounts are scrutinized on the basis of relevant vouchers: Vouchers help in verifying the authenticity of the entries made in the relevant accounts of the business.

- (2) **Documentary Evidence as the Basis of Vouching:** The main basis of vouching is documentary evidence. An auditor needs to examine the relevant vouchers to certify the authentic of the entries made in the books of accounts. The vouchers must be originals (not copies) and related or pertinent to the entries, and must be authentic.
- (3) **Examination of Entries by going behind the Transaction:** The purpose of vouching is to ensure that: (a) the transaction is related to the business of the enterprise, (b) the transaction is duly and correctly recorded in the relevant books of account, (c) the transaction amount is correct and accurate, (d) the transaction has been made by a duly authorised employee of the concern. In other words, the auditor or the examiner does not confine himself to the entries in the books of accounts; he goes beyond to the source of the transaction to establish the authenticity of the vouchers.
- (4) **Routine Checking as Part Vouching:** Routine checking is a part of vouching. In fact, vouching starts with routine checking, and one complements the other.
- (5) **Vouching as the Backbone of Auditing:** Vouching is the backbone of auditing, and helps in uncovering serious malpractices or frauds. An auditor needs to be extra careful while he does vouching for a concern.

1.2 Difference between Vouching and Routine Checking

As discussed in the previous chapter, routine checking involves examining the primary books of accounts and adding up the figures, carrying forward the figures so added and posting the same to arrive at the balances in the accounts. The auditor uses distinct ticks in routine checking and tries to establish genuineness of records, i.e. the costs are correct, the postings are correctly made and that there are no alternations after such postings.

Vouching, on the other hand, helps in verifying the authenticity and authority in the primary books of accounts. Routine checking merely clarifies the arithmetical accuracy of the accounts; it does not shed any light on the correct presentation of accounts or on the accounts being authentic and there being no malpractices in the accounts. In such situation, the auditor needs to take recourse to vouching, which uncover the hidden faults in accounting. As a result, the auditor is in a position to pinpoint the deficiencies or malpractices in the system. Besides this, it becomes clear whether the relevant transactions in the accounting year have all been recorded, or any have been left out — and if so, why. Routine checking is a part of vouching. Vouching includes routine checking — just as it includes checking of cost, postings, carry forwards, extensions and other calculations in the original books of entry.

1.3 Objects of Vouching

Following are the main objects of vouching:

- (1) To ascertain that all transactions connected with the business have been recorded in the books of accounts, and that nothing has been left unrecorded.
- (2) To ensure that no transaction has been recorded which is not connected with the business of the enterprise, and that no extra item having no concern with the business has been recorded, and
- (3) To examine that all entries for transactions which are authorised are genuine and supported by documentary evidence available in the business.

In this regard, Spicer and Pegler have observed that "One of the principal objects of vouching is to ascertain not only that money has actually been paid away by the business but that the payment has been made in respect of a transaction related to the business."

1.4 Importance of Vouching

Vouching is the first step in auditing because the authenticity of the entries made in the account books is verified by it. A routine check only reveals the arithmetical accuracy - it does not shed any light on whether the entries in the account books are relevant to the business and are made by the authorised person. Vouching certifies that all transactions pertaining to the financial year have been recorded and nothing has been left out. In other words, it ensures that the transactions recorded in the books of accounts are relevant, correct and are made by the authorised persons. Vouching helps the auditor to reach the source and certify whether or not the recorded entry is correct and relevant, which helps in pinpointing malpractice and fraud. To assert the importance of vouching, De Paula has said, "Vouching is the very essence of auditing, and the whole success of an audit depends upon the intelligence and thoroughness with which this part of the work is done."

The above statement throws light on the importance of vouching. The maintain of auditing is to report to the client whether the Profit and Loss Account shows the true profits or losses for the year or not; and in the same manner, whether the Balance Sheet depicts the true financial state of the business or not.

The report of the auditor is based on the examination of books of accounts and the examination of books of accounts is based on the available vouchers on the basis of which the books of accounts are written. In this manner vouching is the basic foundation of the auditing process, and only when it is strong can the auditor issue a correct report.

Apart from the above discussion on the importance of vouching, the decision of Justice Talbot in the case of Armitage vs. Brewar and Knott also brings out that vouching plays a very important role in the complete audit process. In this case the vouchers of the petty cash relating to wages had not been vouched as a result of which the auditor could not detect a fraud which had been committed by an employee. In the case the auditor had to pay a fine of £1259 for his negligence. In the case the judge was of the opinion that while examining any transaction vouching and routine checking should not be ignored. Vouching is as important as any other task.

Hence, it is clear that while conducting an audit vouching must be done. According to Lancaster, "It should be realised, however, that the very nature of vouching renders it a practically indispensable phase of every audit and that where curtailment of the auditor's duties in this direction is contemplated, the risk that may be incurred should not be overlooked."

In relation to the importance of vouching some experts are of the view that "vouching is the back-bone of auditing." This comment appears to be totally correct, since vouching enjoys the same importance in the auditing process as the backbone does in the human body. The structure of the human body is able to stand due to the back bone only and if the backbone is weak or broken, it has a devastating effect on the human body. The person is not able to stand up or walk properly and nor can be do anything else. The situation of vouching in the auditing process is also the same. If the vouching is weak, i.e. if vouching has not been done properly, then the correctness, accuracy and truthfulness of the audit cannot be relied upon. Such an audit is pointless and will not succeed. Auditing without vouching is like a building without a foundation which can fall to the ground any moment. Hence, it is not an exaggeration to consider vouching the 'essence' of auditing.

2. Voucher

2.1 Meaning

Voucher is the documentary evidence that authenticates the transaction entered in the books or cash memo, which is a proof of the transaction that is made, and on the basis of which both the buyer and the seller make an entry in their books of accounts. Thus, the documents that are used to record a transaction in the account books are called vouchers. A voucher is the documentary evidence of a transaction. It can be a receipt, an invoice, a bill or any other documentary evidence.

2.2 Definition

Scholars have defined a voucher as follows:

- (1) According to **Arthur W. Holmes**, "A voucher is any documentary evidence in support of a transaction."
- (2) **Lancaster** defines a voucher "as a documentary evidence by which the accuracy of the entries may be substantiated."
- (3) According to **Ronald A. Irish**, "A voucher may be a receipt, an invoice, an agreement, a materiel requisition slip or, in short, any suitable written evidence which confirms a written transaction."
- (4) In the words of **J.R. Batliboi**, "A voucher may be defined as a documentary evidence of an entry appearing in the books of accounts."

The above definitions highlight the following characteristics of a voucher.

- (a) A voucher is a written document.
- (b) Any entry in the books of accounts is made on the basis of a voucher.
- (c) Vouchers are presented as evidence of the accounts.
- (d) Vouchers describe the details of a transaction.
- (e) Vouchers help in certifying the authenticity and correctness of accounts.

2.3 Kinds of Vouchers

Vouchers may be of the following kinds.

(1) **Primary Vouchers:** A written evidence in original of any transaction is called a primary voucher, e.g. an invoice is the written evidence of a purchase and a receipt is the evidence of having made a payment.

(2) **Subsidiary Voucher:** In case the primary voucher is not available, copies thereof or related documents are produced in support, or subsidiary evidence is made available to establish the authenticity of the transaction to the satisfaction of the auditor. Such evidence is called a subsidiary voucher. Purchase order, bill of lading, packing notes, etc. are the examples of subsidiary vouchers which are the outcome of the primary voucher.

At times, the auditor may require to examine the subsidiary or collateral evidence even when the primary voucher is available. For example, the auditor may want to satisfy himself that, in case of goods purchased on credit, no discount was allowed when the payment for the goods was made. In such a case, the auditor would require to examine the purchase order, the related correspondence (if any), the primary voucher and other related documents.

2.4 Examination of Vouchers

Voucher is the basis of vouching, and the auditor does his scrutiny of the books of accounts by examining the related vouchers. But the vouchers can also be falsified or fabricated, or they may be produced more than once to support a default in the account books. The vouchers may also not be related to the business, and may be personal vouchers of any member of the staff or other officer of the company. The auditor needs to examine not only that there is an entry in the account books with respect to a voucher, he also needs to ascertain that the entry made in the account books is correct and relevant to the business of the enterprise. In case the voucher is unrelated to the business or is incorrect, the entry in the books of accounts will become invalid. For this reason the auditor needs to be very careful in his examination of vouchers. The auditor needs to keep in mind that:

- (1) The voucher is issued to the organisation or its owner.
- (2) It is related to the business of the organisation or enterprise.
- (3) If the voucher is in the name of any officer, partner or employee of the enterprise, the transaction for which the voucher has been made is related to the business of the enterprise.
- (4) The voucher is made on a printed form.
- (5) The voucher is dated, and the date is related to the transaction recorded in the books of accounts.
- (6) The voucher is consecutively numbered and is filed serially and in order of entries in the account books.
- (7) The amount in the voucher is both in figures and in words.
- (8) The voucher is signed by the person who has received the payment and is duly stamped.
- (9) The voucher bears a revenue stamp if the amount involved is more than Rs. 500.
- (10) The voucher is signed by a person who is authorised to do so.
- (11) If a voucher requires some special scrutiny, the auditor should proceed continuously and use special ticks for its checking.
- (12) The amount and description in the voucher must tally with the same in the books of accounts where the transaction is recorded.
- (13) The vouchers which have been inspected by the auditor should be cancelled by a stamp so that they are not produced again.
- (14) The auditor should not take any help from any member of the staff of the client while vouching the entries by checking vouchers.
- (15) So far as possible, all vouchers relating to a particular account should be checked in one sitting or as a continuous process.
- (16) In case there is any doubt about the authenticity of a voucher, the auditor should get in touch with the concerned person or organisation and clarify all doubts.
- (17) The auditor should prepare a list of all missing vouchers and receipts, satisfy himself with regard to the reasons for their being missing and demand their duplicate copies.
- (18) Test checking should be resorted to only when the auditor is satisfied that the internal system is in operation.

- (19) While auditing the accounts, if the auditor feels that there is need for any additional information about any vouchers, he should note it down in the 'audit book' and get the required information later.
- (20) In case there is any specific provision in the partnership deed or the memorandum of association with respect to vouching, the auditor should abide by such provision.

2.5 Vouching of Cash Book

Cash book is the most important financial book for a business concern, and as such, vouching of the cash book assumes added importance. Most errors and frauds are the result of misappropriation of cash which is done by manipulating the receipts and payments. The auditor, therefore, must be extra careful in checking the items of cash and ensure that no receipt or payment of cash is unrecorded in the cash book and that no fictitious payment has been entered in it.

In general, the audit of cash book is done with the following ends in view.

- (1) To ascertain whether or not all receipts and payments have been recorded in the cash book.
- (2) To ensure that no irrelevant or fraudulent payment has been made.
- (3) To ascertain whether or not the receipts and payments have been correctly recorded.
- (4) To verify whether or not the cash in hand and cash at bank are correct.

There are two columns in a cash book: (a) Cash Receipts and (b) Cash Payments.

(a) Vouching of Receipt Side of Cash Book: Vouching of the Receipts side of a cash book is more complicated than vouching the payments side because the evidence of receipts is not direct since the payment of such receipts is made by other parties and the entries in the cash book are made internally. Spicer and Pegler have explained this in the following words: "From the auditor's point of view the operation of vouching of receipts is more difficult than vouching of payments since only indirect evidence can, as a rule, be obtained."

The auditor, therefore needs to be extra careful in checking receipts in a Cash Book. He must keep in mind the following:

(1) Internal Checking: The auditor needs to satisfy himself that the internal check system in operation is good and reasonably reliable. He needs to understand the rules and regulations in vogue for issuing receipts, making records thereof and dealing with banks, etc. This becomes necessary to ensure that there is no misappropriation of funds, which can only be done by a thorough examination. He may, for example, check a few items at random and if he finds them to be in order and free from irregularities, he has reason to assume the remaining ones will be correct.

(2) List of Receipts: The auditor needs to examine that all receipts received in a day and the amount of cash thereof is recorded in a List of Receipts, and that the same are recorded in the Diary or the Rough Cash Book, and later in the Cash Book. He must check the two from time to time.

(3) Reconciliation of Cash Books: At the start of the audit, the auditor should examine the Rough Cash Book or the Diary and compare it with the Cash Book, because there is always the possibility that some item recorded in the Rough Cash Book might not have been recorded in the Cash Book.

(4) Receipt Issue System: Another point to be noted by the auditor is that there is a Receipt Issue System, and a proper control over the use of Receipt Book. He should keep in mind the following points:

- (i) That all receipts are on printed forms.

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- (ii) That there is a counterfoil or carbon copy of each receipt.
- (iii) That all receipts and Receipt Books are separately and consecutively numbered.
- (iv) That the particulars in the receipt, i.e. the date, amount, name, etc., are the same as recorded in the Cash Book.
- (v) Blank Receipt Books must be in the custody of an authorised and responsible member of the staff.
- (vi) The receipt must be signed by the authorised member(s) of the staff.
- (vii) There should be no other signature on the receipt except that of the authorised signatory.
- (viii) If there is a system under which a receipt accompanies the receipt of cash, such a receipt (usually known as a delivery note) should be properly signed before its return to the customer.
- (ix) There should be a strict observance of the system of keeping the counterfoil or carbon copy of each receipt.
- (x) In case a receipt is written wrongly or has to be cancelled for any reason, it should not be taken out of the Receipt Book, and the word 'Cancelled' should be written on the receipt.

5. Bank Deposit System: In case the receipts are deposited in the bank, then the total of the receipts deposited should be reconciled with the bank's pay-in-slips. It also needs to be checked that the counterfoils of the bank's pay-in-slips are duly signed and stamped by the bank's officer.

6. Abiding by the Rules: In case there are any other rules in vogue for granting receipts, making records thereof or dealing with the bank, these should strictly be adhered to.

Important Items of Receipts Side (Debit Side)

(1) Cash Sales: The system of internal check of cash sales is of utmost importance in a business. The effectiveness of the internal check system in operation, therefore, needs to be ensured. The auditor should check the carbon duplicates of the cash memos with the summaries of cash sales. He should compare the Sales Abstract with the Cash Analysis and then check up the cash Book. In case the auditor detects any discrepancy, he should immediately inform the client.

The possibilities of fraud or misappropriation are more in cash sales. The auditor, therefore, must be extra careful in vouching cash sales. As Lancaster has very aptly put it, "Vouching of sales is more difficult than that of purchases".

Vouchers: Carbon duplicates of cash memos, salesmen's abstracts, cashier's summaries.

(2) Cash Received from Debtors: In the first place, it is necessary to ensure that the staff who receives cash from the debtors is not involved in making the statements of such receipts. Whatever amount is received from the debtors is acknowledged by a receipt which is issued. The cash received from debtors can be vouched by referring to the counterfoils of the receipts issued to them.

The auditor should pay special attention to the discount allowed to customers and the bad debts that are written off. He should acquaint himself with the method and rate of granting discount. The discount rates should not exceed the percentage that has been predefined. The auditor should enquire who has the authority to write off bad debts and if these are written off by the authorised person. This is important because cash received can be misappropriated by writing off the whole or a part of the debit balance as a bad debt.

Vouchers : Receipt counterfoils, details of the account, correspondence and authorisation certificates of concerned officials.

(3) Amount Received from Bills Receivable: The auditor needs to check the cash receipts of the receivable bills for which the relevant amounts have been received and Bills Receivable Book with the Cash Book and the Pass Book. He should also scrutinise the rebate that has given on bill received prior to the due date, and make sure that rebate given on such bill conforms to the accepted norms of the business. The amount deducted as discount or rebate on these bills should be debited in the Discount Account.

The auditor needs to pay special attention to the bills that have matured but the amount of the bills has not been received, and should get a certificate from the authorised person that the payment has not been received. He should investigate further to make sure that the dishonoured or retired bills have not been paid and that there is no discrepancy or misappropriation.

Vouchers: Bill Receivable Book, Cash Book, Pass Book.

(4) Income from Interest and Dividend: Interest and dividend are receivable from different sources and, as such, their vouchers are also different. Interest is normally received from: (i) Investments, (ii) Loans and (iii) Deposits in Banks. The rate of interest on investments and security is a fixed rate and should be checked with the help of the counterfoils of interest coupons. In the case of interest received on a loan given to a borrower, the relevant agreement between the borrower and the business should be checked to determine the rate of interest. At the same time it should be checked whether or not the interest received has been recorded in the account books on the relevant dates. If the interest is received on fixed deposits in the bank, such income should be vouched with the Bank Pass Book or the Interest Statement that can be obtained from the bank.

In case of receipt of dividends, three vouchers, namely: counterfoils, share certificates, dividend warrants and letters received along with the cheques need to be examined. If such income is collected through the bank, the Pass Book needs to be referred to. The auditor should make sure that the income so received or accrued has been accounted for in the books of accounts and the Balance Sheet.

Vouchers: Pass book, agreements, schedule, counterfoils, dividend warrants.

(5) Rent Received: To vouch the rent received, it is necessary to examine the relevant lease deeds or rent agreements, and ascertain the amount of rent payable and the provision regarding repairs. The auditor should check the counterfoils of the rent receipts issued to the tenants. If any agents are appointed to collect rent, the accounts or statements submitted by them should be checked. The auditor needs to be particularly careful to check the outstanding rent because the rent might have been received but shown as outstanding and the rent amount may have been received but shown as outstanding and the rent amount may have been misappropriated. In case there is any Rent Register or Rent Roll, the auditor should make use of it. If there are any deductions in the rent received — for example, for repairs or house or property tax, etc., — the auditor should check to ascertain that these are genuine and reasonable.

Vouchers: Lease deeds and agreements, rent rolls, accounts received from agents, counterfoils, correspondence.

(6) Commission Received: As a general rule, there is an agreement between the business and the parties from whom the commission is receivable. The rate of the commission payable can be found from such agreement, and the amount of commission paid can be ascertained from the Statement of Commission. The entries counterfoils of receipts and the particulars entered in the Cash Book. If the commission has been received in respect of goods received on consignment, the amount of commission should be vouched by comparing it with the copy of the account sale sent to the consignor. In case it is necessary, the auditor can make the required calculations himself.

Vouchers: Commission agreement, statement of commission, receipt counterfoils, correspondence.

(7) **Subscription Received:** The receipt that is given when a subscription is received should be confirmed by checking the relevant counterfoil. The amounts of subscriptions received can be vouched with the help of the subscriptions Register and receipt counterfoils. The auditor should also check the subscriptions received in advance and the outstanding subscriptions at the end of the accounting year.

Vouchers: Register of subscriptions, counterfoils, correspondence.

(8) **Proceeds of Hire Purchase:** The auditor needs to examine the Hire Purchase Agreement to ascertain the duration of the agreement, the amount of instalments payable by the close of the accounting period. It should be kept in mind that the instalment is not credited to Sales Account — it has to be properly apportioned between sales and interest.

Vouchers: Hire purchase agreement, receipt counterfoils, correspondence.

(9) **Proceeds from Sale of Investments:** Investments are normally sold through brokers. The brokers send a sold note that contains the details of the amounts received from the sale and the commission chargeable by the broker. Vouching the sale proceeds of investments is done by the sold note of the brokers. It is therefore important to check the brokers' sold note. In case there is any agreement or correspondence related to the sale of investments, it should be also be examined.

If the investments have been sold cum-dividend, it should be ascertained that the dividend has been received and apportioned between capital and revenue. In case the sale of investments is ex-dividend, the relevant entry must be checked by the auditor.

Vouchers: Broker's sold note, receipt counterfoils, correspondence.

(10) **Receipts from Sale of Other Assets:** Whenever the fixed assets of a business are sold, they are sold through: (i) a sales representative or a broker and (ii) an auction of the assets. In case the sale is through the medium of a sales representative or a broker, it can be vouched by examining the note of the broker or the sales representative. If the sale of assets is by auction, the auctioneer's note needs to be examined to vouch the transaction. Besides this, if a Sale Deed or a Contract of Sale is the medium, such deed or contract should be examined by the auditor. Thus the auditor can scrutinise the sale proceeds of assets by the broker's or auctioneer's note, or the sale deed or sale contract.

Vouchers: Broker's or auctioneer's note, sale deed or contract, correspondence.

(11) **Claims Received Under Insurance Policy:** In case of any claims received under an insurance policy, the vouching is done by examining the insurance policy, the claim letter, the accounts rendered by the valuer and insurer, and the correspondence between the client and the insurer.

Vouchers: Report of the valuer and insurer, correspondence, Bank Pass Book.

(12) **Refund of Income Tax:** While vouching the refund of income tax, the auditor should ensure that the amount so received is duly entered in the account books of the business. Besides this, the claim for such refund, related correspondence and the statement of the tax authority should also be examined.

Vouchers: Claim for tax refund, related correspondence, etc.

(13) **Bad Debts Recovered:** Under the provisions of the Insolvency Act, when a person or a business is declared to be insolvent, the court appoints a liquidator who takes over the assets of the insolvent, and pays the creditors of insolvent proportionately to their credit from the money

realised from the sale of the assets taken over. The amount so received by a creditor is called Bad Debt Dividend. Vouching for the recovery bad debts is done by examining the dividend letters, receipts and related correspondence.

Vouchers: Dividend letters, receipts, correspondence.

(14) Receipts from Sale of Shares: In order to vouch such receipts the auditor should use the register of members, or the allotment register and the share register. In this context, he should also refer to the 'Minute Books' of the meetings of Board of Directors.

(15) Remittance from agents: Every agent makes out a detail of his account and sends it to the organisation. Normally, the detail is forwarded to an employee, in every organisation, who examines these details minutely and thereafter makes entries in the Cash Book based on these details.

While examining amounts received from agents, the auditor should consider the detail received from the agent as the voucher, and tally it with the entries in the Cash Book.

Vouchers: Correspondence with agents, details received from agents.

(16) Other Receipts: The documents related to such receipts should be examined. In case such documents are not available, the auditor should correspond with the concerned parties to vouch such receipts.

Vouching of Payment (Credit) Side of Cash Book

While examining the authenticity and correctness of any payment made, it is essential to have evidence of the payment having been made. A receipt by the person who has received the payment is the evidence of the payment having been made. Like there are possibilities of the receipt of an amount not being entered in the Cash Book, or a lesser amount than what has been received being entered, the possibilities exist that the payment made to a third party may not be correctly recorded, on the amount recorded may be more or less than what has actually been paid. Normally, it is accepted that examining a receipt is enough evidence that the payment has been made. This is not always correct. In vouching payments, the auditor should not merely seek proof that the money has been paid away; he also has to examine that the amount paid is reasonable, is paid to an authorised person and is duly and correctly recorded in the Cash Book. Besides this, he should make sure that the accepted norms have been adhered to.

The auditor should pay special attention to the following while vouching payments.

(1) Authenticity of Payment: The auditor should the receipts of the payments made, and also ensure that the payments have actually been made.

(2) Payment to Proper Person: The auditor must also check that the payment has been made to the right person or organisation, and that such person or body had the right to receive the payment. The payment can be made to a wrong person, especially when such payment is being made to workers. Each receipt of payment must have the receiver's signature.

(3) Payment being Duly Authorised: Each payment must be duly sanctioned by an authorised person. In large businesses, such authority is vested in different people for different limits of payment. The auditor must ensure that payment made is within the authority limit of the person who has authorised to make the payment.

(4) Amount Paid being Correct: The auditor has also to check that the amount paid is correct. He must tally the amount in words and in figures, and counter check the same with the Cash Book.

(5) Proper Voucher: Each payment must be supported by a proper voucher, like a receipt or a cash memo.

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(6) **Revenue Stamp on Voucher:** The auditor should bear in mind that any receipt for Rs. 500 or more must have a revenue stamp on it to be valid. There are some exceptions to this, which are as under:

- (a) Receipts that are issued by a government body.
- (b) Receipts which are issued for a payment without consideration.
- (c) Receipts which are issued by a co-operative society.

(7) **Payment being Related to Business:** Only such payments can be recorded in the account books that are related to the business of the enterprise. Any personal payments made by the proprietor, the management or any employee is not permissible to be recorded in the account books of the enterprise.

(8) **Date and Year of Voucher:** The payment must be related to the accounting year for which the accounts are being audited. It should not happen that a payment made with respect to the previous year is being included in the current year's accounting.

(9) **Due Date of Payment:** The auditor must also check whether or not the payment was due on the date it was made. If the payment was made before the date on which it was due, the auditor must check the reasons for making the early payment.

(10) **Legality of Payment:** The payment should not be improper from the legal point of view — For example, there should be no restriction on such payment under any ordinance or act in force. All business organisations are governed by various laws and ordinances, and the auditor should make sure that any payment made does not contravene any law in force. Any payment so made shall be void ab initio.

(11) **Proper Record:** When vouching payments, the auditor should check that a proper record has been kept for each payment. For example, the auditor must ensure that capital expenditure and revenue expenditure are correctly and separately recorded, and that all advances paid are properly recorded in the Prepaid Expenses Account and not in the Expense Account. If there is any discrepancy in the record of payments, it has a negative effect on the Profit and Loss Account and the Balance Sheet.

Only by following the above guidelines can the auditor vouch for the authenticity and accuracy of the payments.

Important Items of the Payment Side

(1) **Cash Purchase:** Cash purchases are primarily checked by tallying the purchases with the cash memos which are received from the seller. The auditor also needs to check that the goods purchased have been received and an entry has been made in the Goods Received Book.

Vouchers: Cash memos, Goods Received Book, Cash Book, correspondence.

(2) **Payment to Creditors:** Vouching for the payments to creditors should be done by checking the receipts of such payments. The auditor must also check whether the payments to creditors have been duly authorised and have been made to the persons who legally competent to receive such payments. The auditor should also check the Statement of Account sent by the creditors from time to time and tally the same with the creditors' accounts.

Vouchers: Creditors' receipts, invoices, statements of account, correspondence.

(3) **Payment of Bills Payable:** When vouching the payment of payable bills, the auditor should confirm the amount payable on each bill and the stipulated date of payment by checking the Bills Payable Register, and tally the receipt for the paid bill with the amount due to be paid as

recorded therein. In case the bills have been paid by cheque, the auditor should examine the Bank Pass Book. In case any bill has been paid before the due date, the auditor should confirm that there is a rebate on the payment, if such rebate is admissible.

Vouchers: Receipts of payment, bills payable, Bank Pass Book, correspondence.

(4) Purchase of Land and Building: The purchase of land or building can be of two types. The land or building purchased can be freehold, in which case the ownership of the property passes on to the buyer on the payment of the agreed price. On the property purchased can be leasehold, which gives the right to the buyer to use the property for a specified number of years. In the first case, the ownership is transferred by a Sale Deed, whereas ownership of leasehold property is transferred by a Lease Deed. The auditor should the relevant deed and the authority letter (in case the sale is made by a person authorised by the owner) to vouch the purchase of property.

In case the property is bought through a broker or in an auction, the auditor must examine the relevant documents that transfer the ownership of the land or building, which include the letter of Authority issued to the broker or auctioneer to act on behalf the owner. He should scrutinise the expenses incurred besides the purchase price — like the brokerage paid or the legal expenses incurred in the transfer of the property. The auditor should also ensure that the amount paid has been entered as Capital Expenditure in the account books.

In case a building has been constructed, the auditor needs to examine the contract signed with the builder, the receipts of payment made to the contractor and the certificates of architects.

Vouchers: Seller's bill, hire purchase agreement, auctioneer's note, receipts and other correspondence.

(5) Purchase of Investments: Normally, investments are purchased through brokers. As such, while vouching such purchases, the auditor must examine the Broker's Bought Note and the Receipt of the payment made. In case the payment has been made through bank, it can be verified by examining the Bank Pass Book. In case of cum-dividend purchase, it should be seen that the expenditure has been properly apportioned between capital and revenue.

If it is a purchase of new issue, the Letter of Allotment, Share Certificate, etc. need to be examined by the auditor. Further, the purchase of investments must be properly authorised. In case the investments consist of inscribed stocks, the certificate of the bank should be obtained.

Vouchers: Broker's bought Note, Pass Book, letters of allotment, share certificates, etc.

(6) Purchase of Patent and Copyright: Patent is granted by law to the inventor or discoverer to 'sell' the right to manufacture the product invented to a third party. Copyright is the same as 'patent' — but it applies to not a product but something that is written, for example a book or a treatise. The auditor should examine the agreement of purchase for the patent and copyright, as also the receipt in token of the amount having been paid. Any expenses incurred in connection with the purchase should be capitalized. In case the purchase is affected through an agent, the agent's commission should also be capitalized. If the patent or copy right is renewed, the renewal fee is not a capital expenditure, and must be treated as a revenue expenditure.

Vouchers: Purchase agreement, receipts, agent's account, etc.

(7) Payment of Salary: The payment of salary must be vouched from the Salary Register, because such register bears the signature and other details of the person receiving the salary. The entries in the Salary Register should be tallied with the Cash Book. The auditor should also check that the person receiving the salary has put his signature in the Salary Register, and any increases in the salaries of employees are properly authorised. The variations in salary may be due to annual

increments, or special increments or rewards — which should be carefully checked. The auditor should also examine any alterations in the amounts because of deductions on account of fines, fund, rent, loans, insurance or advances.

Besides the Salary Register, the auditor needs to examine the appointment letters, agreements and minutes from the minutes Book to ascertain the conditions of appointment.

Vouchers: Salary register, appointment letters, job agreements, Directors' Minutes Book, etc.

(8) **Payment of Wages:** As a general rule, the payment of wages is vouched by the auditor to ensure that:

- the wages have actually been paid.
- the payments so made are duly authorised.
- the amounts paid as wages are corrected and as authorised.

Vouching of wage payments is one of the important duties of the auditor because there is a greater possibility of fraud in such payments — like casual labour or the inclusion of 'dummy' names in the Wage Sheet. The auditor needs to check the occurrence of clerical errors and the adequacy of line and piece - work records. In case the auditor suspects any discrepancy in the records, he should report the same to the client and give his suggestions for correcting the same. To vouch the payment of wages, the auditor should keep the following in mind:

- (1) That the calculations in the Wage Sheet are correct and that they tally with the Cash Book.
- (2) That the Wage Sheet is prepared by persons who are not involved in the actual payment of wages.
- (3) That the amounts paid as wages at different times tally with what is recorded in the Cash Book.
- (4) That the Wage Sheet bears the signatures of all the persons who have prepared it.
- (5) That the names of some labourers are randomly checked with the help of the Job Cards and the Foreman's Register. This will ensure that there are no 'dummy' names.
- (6) The presence of the labourers on the work site can be checked by the records of the gate-keeper or the time-keeper.
- (7) Some labourers are paid according to their work-output. In such cases, the auditor needs to check the work-output to vouch the wages paid.
- (8) There could be some deductions in the amount paid to workers — like tax-deduction, employees' state insurance, provident fund, life insurance, etc. These can be vouched by checking the relevant cards issued to the workers. It must also be checked that the deductions are as stipulated and are deposited in the relevant accounts. For example, the income tax deduction must be deposited in the income-tax account and the employees' state insurance in its separate account. To do this, the auditor needs to check the relevant receipts and account books.
- (9) The wages paid to the workers must be lawful and duly authorised. The auditor must be conversant with wage laws in force.
- (10) The auditor should ensure that the total wage bill is withdrawn from the bank vide one cheque, and tally the amount so withdrawn with the total amount of wages paid. Any amount that is left unpaid must be redeposited in the bank.

- (11) There is a greater possibility of fraud in the payment of wages to casual workers, and the auditor needs to be extra careful in vouching such payments.

Vouchers: Wage Sheet, Total Wage Bill and the Cheque details by which it is withdrawn, Job Cards, Foreman's Register, Pass Book, etc.

(9) **Interest on Loans and Debentures:** All loans, whether from the bank or any other source carry a certain amount of interest which has to be paid. To vouch the interest paid on loans, the receipt for the payment of interest and the other terms of the loan need to be examined, and the amount of receipt needs to be tallied with the Cash Book entry. In case the payment of interest is made by cheque, the bank rate of interest must be checked from Debenture Interest Book. Besides, such payment may be vouched by the Interest Warrant or the Interest Coupon that is issued to the payer. The auditor needs to check the same with the debentures, Interest Book and Pass Book.

Vouchers: Terms of loan and loan agreement, interest warrants and interest coupons, interest book, Pass Book, etc.

(10) **Payment of Rent:** While vouching the payment of rent, the auditor should tally the entries in the Rent Account with the Cash Book and the Rent Receipts to ensure that the payment records are authentic. In case the rent has been paid by cheque, the Bank Pass Book also needs to be examined.

Vouchers: Rent Receipts, Bank Pass Book, etc.

(11) **Payment of Dividend:** To vouch the payment of dividend, the auditor needs to check the Cash Book and the Dividend Account to ascertain the authenticity of the dividend payment. Dividend Warrants also need to be examined. In case the dividend has been paid through bank, the Dividend Warrants must be checked with the Pass Book. The amount of unpaid dividend should be the same as that in the Pass Book.

Vouchers: Dividend warrants, Bank Pass Book.

(12) **Payment of Commission:** Their terms of the payment of commission should be checked with the contracts made with the agents. The Sales Accounts sent by the agents should be checked and it should be made sure that the commission paid to the agents is reasonable and lawful. The auditor also needs to check whether the commission is to be paid on Gross Sales or Net Sales. The receipts of the agents having received the commission also need to be checked.

Vouchers: Contracts, Sales Accounts, Receipts, etc.

(13) **Payment of Travelling Expenses:** While vouching for travelling expenses the auditor should check that the expenses for the travel are related to the business. The vouchers should specify the name and designation of the person, the particulars of the journey, the fare paid, the amount paid for boarding and lodging, and other expenses connected with the travel. Where the amount payable is fixed, there is no difficulty in checking it, but in other cases, the auditor has to check quite a lot of details.

Vouchers: Travel bills, receipts, etc.

(14) **Payment of Preliminary Expenses:** Preliminary expenses are the expenses incurred in the incorporation or establishment of a company. Such expenses are also subject to audit, and as such, the expenses must be legitimate and within prescribed limits. In case the preliminary expenses are extraordinary, the auditor must check that the expenses have been incurred with the concurrence of the shareholders.

The auditor has to vouch payments made to the accountant, lawyer, printers etc. on the basis of receipts issued by them. Apart from this, he should also ensure that expense on underwriting

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and commission are not included in them. These are capital expenditure and should be written off against capital profits and the amount so written off should be shown in the Balance Sheet. He should also be seen whether the Preliminary Expenses have been approved by the Board of Directors or not.

Vouchers: Receipts, documents, approval of Board of Directors, etc.

(15) Payment of Bonus to Staff: While auditing the payment of bonus to the staff, the auditor should keep the following in mind:

- (i) The payment of bonus must be duly authorised by the responsible officer of the business concern.
- (ii) The bonus must be paid as per the decision of the Labour Tribunal, or paid under the provisions of the law or as per any agreement with the workers' union and the management. It could also be paid under the direction of the Board of Directors.
- (iii) What is the underlying basis of the bonus being paid.
- (iv) The auditor is required to scrutinize the statement of the bonus amounts and the calculations on which the amount has been fixed as bonus.
- (v) It is also important to ensure that the payment of bonus is made on the formulas defined for such payment.
- (vi) The payment of bonus to each employee should be checked.

Vouchers: Bonus notice, certificate of the authorised person, year's record, tribunal's verdict, directors' resolution, agreement with workers.

(16) Directors' Fees: To vouch the payment of directors' fees, the Directors' Minutes Book, the Attendance Register and the receipts for such payments need to be examined. To ascertain the provisions with regard to the payment of Directors' fees, the auditor also needs to study the Articles of Association. He also needs to examine the shareholders' resolution to ensure that the payments made as Directors' Fees are correct.

Vouchers: Minutes Book, Attendance Register, Articles of Association, Resolution of Shareholders.

(17) Payment under Hire Purchase and Instalments: To vouch the payments made under hire purchase or instalment system, the auditor must examine the related agreement and the receipt received for the payment. The instalment paid includes the interest and, as such, the auditor should ensure that the interest is charged as a revenue expenditure. The payments should be vouched with the help of the periodical statements received from the hire trader and the relevant vouchers.

Vouchers: Hire purchase or instalment agreement, receipts, etc.

(18) Payment of Sundry Expenses: Postal expenses, expenses on entertainment, electricity or advertising fall under this category and are vouched by examining the receipts for such expenses. In case of any alterations in the amounts, the auditor should ensure that the same are recorded in the relevant accounts.

(19) Payment of Penalty for Failure to Purchase Goods: In certain cases when the goods are not purchased as promised, there could be a penalty to be paid. To vouch the payment of such penalty, the auditor should examine the agreement under which the goods were required to be purchased. He should also ensure that the payment so made is duly authorised by a responsible person. In case the payment is by cheque, it should be tallied with the Pass Book. Where the payment is related to the business of a concern, it should be recorded on the debit side of the Profit and Loss

Account. The auditor also needs to examine why the payment as agreed has not been made.

Vouchers: Agreement, court verdict (if any), Pass Book, certificate of the authorised person.

2.8 Vouching of Petty Cash Book

The vouch the small sundry expenses, the auditor needs to examine the Petty Cash Book. The auditor, first of all examine the system of internal check with regard to the petty cash transactions. Since there are no vouchers for such expenses, there exist the chances of misappropriation, and as such the auditor needs to be extra careful in examining such transactions. The following need to be kept in mind while vouching petty cash transactions.

- (1) By examining the Petty Cash Book, the auditor should ascertain the channel under which such transactions are executed.
- (2) The payment entered in the Cash Book which has been made to Petty Cashier for such expenses should be checked.
- (3) The available vouchers need to be examined. In case the vouchers are not available, it must be ensured that the payments recorded in the Petty Cash Book are duly authorised by a responsible officer.
- (4) The totals and balances of the Petty Cash Book must be examined.
- (5) The Petty Cash Book must be periodically checked and initiated by a responsible officer to ensure that the payments are bonafide.
- (6) No employ should be allowed to borrow any amount from the petty cash available.
- (7) The closing balance of petty cash on the date of the Balance Sheet must be verified. The amount of petty cash in hand should be counted if the auditor is not able to attend on the date of the Balance Sheet.

In the case of London Oil Storage Company Ltd. vs. Sear Hasluck and Company, it was held that there was a beach of duty on the part of the auditor because he had not vouched the existence of the petty cash balance which was shown to be £796 in the book but was in fact only £30.

- (8) In case there is any discrepancy in the Petty Cash Book, it should immediately be reported to the client.

Vouching of Purchase Book

Before vouching of the Purchase Book, the auditor should check the system of internal check that is in operation so that he gets to know where the possibilities of any fraud exist. In case the internal check system is satisfactory, the auditor should adopt the following technique for vouching the Purchase Book.

- (1) **Checking the Entries on the Basis of Invoices:** Each entry in the Purchase Book must be vouched on the basis of the relevant invoice. An invoice is deemed to be the Original Voucher. It is therefore important to check the invoice for its authenticity and correctness. If the internal checking system is efficient and effective, the auditor can conveniently proceed with the vouching of the Purchase Book.

The following points need to be kept in mind while checking the invoices:

- (i) The invoice is in the name of the business or the institution.
- (ii) The invoice bears the signature of a responsible person who has checked it.

- (iii) The name of the supplier in the invoice is the same as in the Purchase Book.
- (iv) The invoice number, date and amount is correctly entered in the Purchase Book.
- (v) The trading discount has been deducted from the invoice amount and only the net amount is entered in the Purchase Book.
- (vi) The invoice is related to the business of the client, i.e. the goods purchased are such that are used or dealt with by the business.

In case the invoice is correct, it should be stamped after it has been examined so that it is not used again.

Besides this, the Requisition slip and the Receipt of Goods by the store-keeper also need to be examined. Besides this, the auditor should keep in mind that capital purchases have not been written as revenue purchases in the financial book.

(2) Maintaining a Record of Lost Vouchers: In case any invoices are not available while vouching, the relevant entries can be authenticated by asking for duplicate invoices from the suppliers. Any invoices which has been lost and for which no duplicate is available must be written in a Note Book by the auditor.

(3) Using the Goods Inward Book: Sometimes invoices are withheld or suppressed with the intention of manipulating the accounts so that the purchases are shown to be more or less than the actual purchases. The auditor, therefore, needs to check the Goods Inward Book and the Good Received Note with the Purchase. The accounts are sometimes manipulated at the beginning or the end of the financial year to show a higher or lower profit. The auditor, therefore, needs to be extra careful and ensure that all goods for which there are invoices have been received by the store. He particularly must ensure that no invoice has been omitted or has been entered twice in the Purchase Book.

(4) Checking Totals and Posting: After checking the invoice entered in the Purchase Book, the auditor should the totals and balances and ensure that the calculations made are correct. The postings to the respective ledger accounts also need to be checked.

(5) Goods Received on Consignment: Invoices of goods received on consignment and goods received on approval also need to be examined to ensure that the same have not been entered as purchases in the books of accounts.

The basic purpose of the Purchase Book is to enable the auditor to certify that the concern pays for only those goods that have been purchased and received by it.

Vouchers: Invoice, Goods Inward Book, Copy of Order, Goods Received Note, etc.

2.9 Vouching of Purchases Returns Book

While vouching the Purchases Returns Book, the first and foremost task for the auditor is to satisfy himself that the internal check system in operation is authentic and above board. After doing that he should check the following:

- (1) When a purchase is returned, the firm (i.e. the buyer) sends a Debt Note to the seller. The auditor should check to confirm whether or not a Credit Note has been received in response from the seller and whether the amounts of the two notes are the same.
- (2) The auditor should check the Credit-Notes entries in the Purchases Returns Book to ensure that the entries are correct.
- (3) When the goods are returned, an entry of the goods returned is made in the Goods

Outward Book. This book should be checked to ensure that all goods returned have been entered. In case of any doubt about the goods having been returned, the auditor can correspond with the creditors to confirm the same.

- (4) The Goods Despatched Note and the entries in the Goods Outward Book at the entrance of the client firm's premises should be checked to verify the purchase returns.
- (5) Usually, frauds are committed for goods returned at the beginning or the close of the financial year. The accounts relating to these periods should, therefore, be thoroughly examined.
- (6) After examination, each Credit Note should be stamped or marked with a tick so that it cannot be presented again.

Vouchers: Credit note, Goods Outward Book, goods despatched note, correspondence, etc.

2.10 Vouching of Sales Book

Vouching of sales is more complicated than that of purchases in that the documentary evidence may not be conclusive. Vouching of sales is done by examining the copies of invoices. The seller sends on invoice to the buyer with every sale of goods, and a copy of the invoice is retained by the seller, which is evidence of the sale having been made. This evidence is not deemed to be conclusive because the invoice is prepared by the seller, and there is the possibility of it being fabricated. That is why the auditor needs to be extra careful in vouching the entries in the Sales Book. As a rule, the auditor should examine the system of internal check with regard to credit sales. After being satisfied with the internal check system, he should proceed as follows.

- (1) The orders received and the related correspondence must be examined.
- (2) Entries in the Sales Book must be checked with the Goods Despatched Note and the Goods Outward Book at the main gate, and tallied with the relevant invoice. Besides this, the debtors accounts and the statements sent to them from time to time must also be checked.
- (3) The sales recorded a few weeks before the end of the financial year and for a similar period in the beginning of the new year should be checked very carefully. This is necessary so that the auditor can vouch the sales of the current financial year have not been recorded in the new financial year and vice versa.
- (4) The rate of Trade Discount also needs to be checked to ascertain that it conforms to the accepted norms and is as agreed in the sale agreement.
- (5) Goods sent on consignment and goods sent on approval are not deemed to be actual sales. The auditor must examine to ensure that these are not recorded in the Sales Book.
- (6) The auditor also needs to check that any goods sent by VPP that have not been accepted by the customer are not included in the recorded sales.
- (7) It should be seen that capital sales have not been treated as revenue sales.
- (8) The auditor should check the postings of the Sales Book and examine the postings to Ledger Accounts.

Vouchers: Orders received, goods despatch notes, Goods Outward Book, related correspondence, etc.

2.11 Vouching of Sales Return Book

Before vouching the Sales Returns Book, the auditor examine the system of internal check that is in operation. The following must be kept in mind while vouching the sales returns.

- (1) The entries in the Sales Returns Book must be checked with the help of Credit Notes and Counterfoils. The auditor also needs to check whether or not the credit notes have been duly received and that they bear the recipients' signatures.
- (2) When the returned goods are received, an entry is made in Goods Inward Book by the gate-keeper. The auditor, therefore, needs to examine the goods Inward Book.
- (3) He also needs to check the castings of the Sales Returns Book and the postings in the Ledger Accounts.
- (4) The auditor should especially check some random entries made in the beginning or at the close of the financial year as these may involve some manipulation of accounts.
- (5) The statements of Accounts sent to the customers from time to time and other related correspondence also need to be examined by the auditor.

Vouchers: Credit and debt notes, Sales Returns Book, statements of accounts, related correspondence.

2.12 Vouching of Bills Receivable Book

The auditor should proceed as follows while vouching the Bills Receivable Book:

- (1) Check the matured bills for which payments have been received.
- (2) Compare the bills received by the due date with the entries in the Cash Book.
- (3) Check the Cash Book and the Bank Pass Book for the bills that have been discounted.
- (4) For the bills that have been dishonoured, the relevant entries in the financial books need to be examined.
- (5) In case of bills-in-hand that have not matured, the auditor must verify that such bills are with the client. Where the bills have been deposited with the bank, the auditor needs to examine the certificate of the bank to that effect.
- (6) The costings of the Bills Receivable Book and their postings to the Ledger Accounts also need to be checked to ensure that the liability for the bills discounted is properly shown in the liability side of the Balance Sheet.

Vouchers: Copies of bills, Cash Book, Pass Book, bank certificates, etc.

2.13 Vouching of Bills Payable Book

The following procedure should be adopted while vouching the Bills Payable Book.

- (i) Entries in the Bills Payable Book should be checked with the accounts of the creditors.
- (ii) The evidence of the bills for which the payment has been made on maturity can be verified by examining the Cash Book and the Pass Book. In case the payment has been made in cash, the receipt for such payment needs to be examined.
- (iii) In case any payable bill has been paid before the due date, it needs to be checked that the discount made in the payment is reasonable and as agreed.
- (iv) The counterfoils and copies of the bills that not yet matured are the documents in support of such bills. The auditor needs to examine the Bills Payable Book and, if required, the statements of account given by the creditors.

- (v) The costings of the Bills Payable Book and their postings in the Ledger Account also need to be checked.

Vouchers: Payable Bills, Receipts of Recipients, Cash Book, Pass Book, Statements of Creditors' Accounts.

2.14 Vouching of Journal Proper

In any large organisation, besides the closing ledgers and other books of account, that is what is termed as the Journal Proper. All entries that have not been recorded in the relevant original accounts. The entries which cannot be passed through any other book of original entry are passed through the Journal Proper. Vouching the entries in Journal Proper is complicated as there is a lot of scope for the manipulation of accounts in the Journal. The entries in the Journal are as follows:

- (i) **Opening Entries:** These entries can be vouched by checking the Balance Sheet of the previous year and the Working Papers of the current year. In case the business has been purchased from the vendor and then the opening entries have been passed, the agreement between the client and the vendor needs to be examined. In the case of a company, the Articles of Association and the Director's Minutes Book should be examined to ensure that proper records have been maintained and there is no manipulation in the accounts.
- (ii) **Closing Entries:** Closing entries are the ones that are passed for closing and transferring balances from the nominal accounts to the Profit and Loss Account. The auditor needs to check that the balances have been correctly arrived at and transferred to appropriate accounts.
- (iii) **Bad Debts:** The auditor must check that the provision for bad debts is based on the procedures established in the company, and verify the adequacy of such procedures. He should check that such debts are written off only under proper authority. He should not pass any entry until he is satisfied that the entry is correct and valid.
- (iv) **Depreciation:** To vouch the entries for provision for depreciation, it is important to have information about the nature of the assets, their estimated effective life and the basis on which such provision has been made. The Directors' Minute Book also needs to be referred to for authority.
- (v) **Adjusting Entries:** Entries related to provision for doubtful and bad debts, prepaid and outstanding expenses, accrued and unearned income, depreciation and reserves, and allocations between capital and revenue fall under this category. The auditor should sort out such entries and examine the same carefully by checking the calculations, etc.
- (vi) **Transfer Entries:** Such entries are those that are transferred from one account to another through the medium of the Journal. The auditor needs to examine the reasons for the transfer and its acceptance by the concerned officer of the company.
- (vii) **Consignment Transactions:** Vouching of goods sent on consignment should be done by checking the proforma invoices, correspondence, account sales received and the contracts with the consignees. Receipts for the freight paid, toll tax or godown rent should also be checked. Besides, the relevant correspondence with the consignee with respect to the sale, expenses or commission, etc. should also be examined. In case the price quoted is higher than the cost, the necessary adjustment should be made before finding out the actual profit or loss. Unsold stock must be shown separately as 'Stock of Goods on Consignment' in the Balance Sheet.

Entries in the case of goods received on consignment from other parties also need to be passed through the Journal, and can be vouched with the help of copies of the account sales sent to the consignor. The sale of such goods is not deemed to be ordinary sale and is dealt with separately.

2.15 Vouching of Creditors Ledger

Creditor's Ledger is maintained in order to keep accounts of all such persons from whom goods are bought on credit. The following points need to be kept in mind when vouching the Creditors Ledger.

- (1) The opening balances of the accounts should be checked with the audited balances of the previous year.
- (2) All the supporting books — namely, Purchases Book, Goods Outward Book, Bill Payable Book, Cash Book, Discount Register, Allowance Book — need to be carefully examined.
- (3) All entries examined should be tick-marked, and Transfer Entries should be checked in the Journal.
- (4) Additions and calculations in the accounts should be checked.
- (5) There should be correspondence with the creditors and the amount due to them should be confirmed with them.
- (6) If the amount due as per the details provided by the creditor does not match with the balance in his account, the same should be investigated in detail as it may be possible that same purchases may have been deleted in order to show higher profits.
- (7) If the balance due to any creditor has been outstanding for a number of years, then the reasons for non-payment of the same should be investigated. Correspondence should be undertaken with the creditor in this regard.
- (8) The total of all accounts in this ledger should be tallied with the balance in the Bought Ledger Adjustment account in the General Ledger.

2.16 Vouching of Sales Ledger or Debtors Ledger

The sales ledger contains the personal accounts of the debtors who have been sold goods on credit. While vouching this ledger the following procedure should be followed.

- (1) The opening balances of the various accounts should be tallied with the closing balances as shown in the ledger accounts of the previous year.
- (2) The totaling and balances of all the accounts in the ledger should be checked.
- (3) In this ledger, entries originating in other subsidiary ledgers are also posted. Hence the entries posted from the Sales Return Ledger, Cash Book, Bills Receivable Ledger, journal and other subsidiary books should also be examined. The entries for transfer of balances can be checked through the Journal.
- (4) All the accounts in the ledger should be examined in detail and then marked appropriately.
- (5) No entry is even made directly into the Sales Ledger and hence, it should be checked whether any entry has been made directly into the Sales Ledger.
- (6) The list of debtors should be tallied with the balances in their personal accounts.
- (7) The total of the balances of all debtor accounts in the Sales Ledger should be tallied with the Sold Ledger Adjustment Account in the General Ledger.

(8) The sales ledger should be examined with reference to the details sent in by the debtors and the truthfulness of the transactions should be established.

(9) The certificate officer with regard to bad debts and provision for bad debts. It should also be insured that in the Balance Sheet the amount of provision for bad debts has been reduced from the debtors.

(10) If the auditor's suspicions are aroused in relation to any account, then he may dispense off the same by undertaking direct correspondence with the parties concerned and obtaining certificates from responsible officers.

2.17 Vouching of General Ledger

Apart from the purchase and sales ledger a general ledger also has to be maintained. Apart from the personal accounts all other accounts are examined through the General Ledger. While auditing the transactions contained in the General Ledger, the auditor should keep the following points in mind:

(1) Each posting made in this ledger should be vouched.

(2) The totals and balances of all the accounts in the General Ledger should be checked and it should also be ensured that the balances of these accounts have been transferred correctly to the Trial Balance.

(3) The balances in the various accounts in this ledger should be tallied with the concerned entries in the Profit and Loss Account and Balance Sheet.

2.18 Teeming and Lading System

By the words teeming and lading we imply short term misappropriation of funds by delaying the recording of receipts. This is a kind of short term embezzlement of funds. For example, if a cashier does not record a sum of Rs. 1,000/- received by him immediately, but adjusts it later against some other receipt, then it is referred to as teeming and lading. In the words of Meigs, "Teeming and lading means the concealment of a shortage by delaying the recording of cash receipts."

Hence, by adjusting the receipts in this manner, the embezzlement of funds can be hidden for short periods of time. In this method of fraud, the amount received from one debtor is not shown in the Cash Book, and the same is embezzled. Thereafter, when cash is received from any other debtor, the amount is not deposited in his account, rather it is entered into the account of the first debtor, and the cash is taken into the books. In the same manner, payment received from a third debtor is taken into the account of the second debtor. Thus, some cash of the business is always in the hands of dishonest employees for their personal use.

The teeming and lading continues until the person is in a position to return the embezzled funds or untill the fraud is detected. In this system funds of the business are misutilised.

This technique of fraud can also be used in relation to amounts received by cheque. However, if the amount is received by cheque the amount of the cheque will have to be split up into many parts. This is also referred to as splitting of cheque.

Example: Ram the cashier, does not enter Rs. 2,000/- received from Shyam in the Cash Book and uses the cash for his personal purposes. Some time later Mohan pays Rs. 3,500/- out of which Ram deposits Rs. 2,000/- in Shyam's account and retains the remaining amount. Thereafter, he receives Rs. 5,000/- from Sohan out of which he deposits Rs. 3,500/- in Mohan's account and retains the remaining amount. In this manner some funds of the organisation are always in the personal use of the cashiers, throughout the year. However, at the time of closing the books he

enters the cash received from the last person and makes up the deficiency. Sometimes, when he falls short of funds he debits discount or bad debts account and credits the person's account, in order to make up the deficiency in cash.

In this manner, the amount embezzled is transferred from one account to another, and comes to an end only when the fraud is detected or when the person committing the fraud runs away.

2.19 Teeming and Lading and The Auditor

This method of fraud is usually adopted by cashiers only and is very difficult to detect, hence the auditor should always keep the following points in mind:

(1) The auditor should examine the entries in the cash book with the counterfoils or carbon copies of receipts issued for amounts received, with special emphasis towards the dates.

(2) He should vouch the cash book with reference to the bank pass book. This will bring to light whether the cash and cheques received have been deposited into the banks on the same day or not.

(3) He should tally the bank pay in slip with the entries in the Cash Book and Petty Cash Book. In this content special emphasis should be laid on dates and he should satisfy himself that there has been no teeming and lading. If there is a difference between the receipts in the petty cash book and the amount deposited into the bank, then the reasons for the same should be investigated.

(4) To ensure that there has been no splitting of the cheques received and deposited into the bank should be checked with reference to the personal accounts of the debtors.

(5) In relation to bad and doubtful debts the auditor should ensure that the same have been approved by a responsible officer.

(6) By undertaking direct correspondence with various debtors he should ask for their copy of accounts and tally the same with the balance in their account in the ledger. During the year, cash should be checked by a responsible officer at random intervals.

2.20 Disadvantages of Teeming and Lading

- (1) Fraud committed by this technique results in loss of interest to the organisation.
- (2) There is a decrease in the working capital of the organisation.
- (3) It increases the audacity among employees to commit fraud.
- (4) Sometimes, the cashier is unable to make good the amount embezzled by him; as a result of which he resorts to other manipulations in order to hide his fraud or leaves the organisation.

Questions

I. Long Answer Type Questions

1. "Vouching is the backbone of Auditing". Discuss the importance of vouching in the light of this statement.
2. What is Vouching and how does it differ from 'Routine Checking'? Give the objects of vouching.
3. What is Voucher? To what special point should an auditor pay attention while examining the vouchers?